

**Audit Committee
Meeting Minutes
April 20, 2005**

**Kiva Conference Room, First Floor, City Hall
3939 North Drinkwater Boulevard
Scottsdale, AZ 85251**

Members Present: Chairman Lane
Committee Member Ecton
Committee Member Littlefield joined the meeting at 3:20 p.m.

City Staff Present: Cheryl Barcala, City Auditor
Lisa Blyler, Assistant to the Mayor and Council
Neal Shearer, Assistant City Manager
Roger Klingler, Assistant City Manager
Eric Spivak, Internal Auditor
Stella Fusaro, Senior Internal Auditor
Gail Crawford, Internal Auditor

The meeting was called to order at 3:05 p.m. by Chairman Lane.

Minutes of the April 5, 2005, Audit Committee Meeting were approved.

General Business:

Item 1 – Cheryl Barcala stated that the Asset Audits were comprised of four separate audits. The ones being discussed today are Fleet Asset Management and Real Property Asset Management. The work was done using the Administrative Regulation (AR) that set out the guidelines for Asset Management.

Fleet Asset Management: Eric Spivak, the auditor in charge of this audit, gave an overview of what was found during audit work. Fleet has processes in place to assure that purchases are approved by the proper authorities. Fleet did an excellent job of recordkeeping. Purchasing is working with Fleet to ensure that purchases made from different budgets are approved by Fleet, as long as they meet the criteria to be considered Fleet Assets. The AR states that an annual inventory is to be completed. Since a continual inventory is completed, an annual inventory is redundant. Committee Member Ecton asked how many individual vehicle purchases were made without going through the proper channels and how many went to the City Manager level. Mr. Spivak indicated that all went through the proper channels since the AR was implemented and one went to the City Manager for approval. The scope of this audit was whether the City was complying with the rules that the City Manager had set out for managing vehicle acquisitions. A recommendation was made to develop procedures on the reconciliation of fuel; Fleet is doing this. Another recommendation was made to develop procedures when a vehicle is totaled and the vehicle needs to be removed from the

system. Currently, it is removed from the Fleet system but documentation is needed in Risk Management. Committee Member Ecton asked if the City is meeting requirements for alternate fuel. Discussion ensued on biodiesel fuel and CNG alternatives, but this was not in the scope of this particular audit.

Real Property Asset Management: Stella Fusaro, the auditor in charge of this audit, gave an overview of what was found during audit work. Scope was limited to the AR and City Code. We wanted to test whether the financial records accurately reflected the real property owned by the City. We were not able to complete this testing because the records kept by Asset Management are kept by parcel number and the records kept by Accounting are based on payment history. There was no common reference to compare the two. Committee Member Ecton asked if asset numbers are assigned. Ms. Fusaro indicated that they are not for real property. One of the recommendations is to develop a process and a common scheme so this can be reconciled and include dedications in the process. Chairman Lane asked if there is a value assessed or assigned by Asset Management. Ms. Fusaro indicated that there is not. Discussion followed regarding the different functions and how they could affect the City's exposure and loss. Committee Member Littlefield questioned why Recommendation 5 is agreed to in part. Mr. Klingler stated that there are a number of departments that handle lease transactions and the question is do we want to transfer those people to Asset Management, do we want to transfer the workload, do we want to get more people in Asset Management, or do we just want to centralize for accounting purposes or recordkeeping purposes. Ms. Fusaro stated that the recommendation meant that Asset Management should oversee and keep a centralized list of all the leases in the City in order to have consistency. Committee Member Littlefield stated that that was how he read the recommendation. Discussion continued on the wording of the recommendation. Ms. Barcala and Mr. Klingler will meet to resolve the wording of the recommendation before the final release of the report. Chairman Lane asked about the issue mentioned in the cover letter regarding environmental assessments on dedications and asked who was assigned this responsibility. Ms. Barcala stated that it was brought forward as a consideration for a future audit as it was noticed during work on the current audit. Discussion ensued regarding dedications and the processes in place. Committee Member Littlefield asked for clarification on Recommendation 4; "is it not clear which area is responsible for sending documents to the County Recorder." Ms. Barcala stated that it is not clear who is responsible for sending the documents to the County Recorder nor is it clear who is responsible for maintaining the document. Additionally, there is no numbering scheme to track the documents. Mr. Shearer stated that issues that come up outside of the audit will be noted by City Manager staff and factored into the follow up even though there is not a specific recommendation. These issues get actively addressed and tracked, as it is another way to bring issues to our attention in a less formal context. Ms. Barcala stated that there was one scope limitation while doing this audit. It had to do with staffing that was not available to explain the method on CIP valuations that go through the CIP process and the breakdown of the costs when a project is completed through capital projects. This is tracked by a person called a CIP Coordinator who is in the Budget Office and that person provides information to Financial Services to record the value. The person in

Financial Services did not have the documentation to determine how the valuation was derived and we could not get access to the files that were kept by the CIP Coordinator due to the position vacancy at that point in time. We were not able to go back in and look at how the valuation was determined during the time the purchase was made for the Capital Improvement Project. Ms. Fusaro made the recommendation to develop a process and for the documentation to be kept with Financial Services so the files would be available. We had to consider the scope limit because we could not actually check the valuations. Chairman Lane asked if this is something we should go back and redo. Ms. Barcala stated that at this time we should not. She added that there is a new person in the position now and she needs to familiarize herself and address the issues that Ms. Fusaro has raised.

Item 2 – Preliminary Work Underway: Ms. Barcala stated, as mentioned earlier, there are four segments of Asset Management, the other two segments are Computer Asset Management and Tangible Property. We have the responses from the Computer segment and the responses for the Tangible Property are due Thursday. The work underway includes an audit of **Solid Waste Management Reserve Fund**. This work is complete and we are going to bring back a recommendation that we not do any more fieldwork and consider it done. This is a 25-cent fee that was put into Ordinance in 1992 set up as a reserve fund for recycling, source reduction, environmental mandate, etc. We found that it is not handled as a reserve; it is wrapped up and spent as a normal operational fund. There is no reserve balance and no tracking of specific expenditures against the funds that are raised from the 25-cent charge. Our recommendation is that it be set up in compliance with Code or brought to Council and the Code repealed. **Software Licensing** work is being completed and should be finished soon. Preimplementation of the **Billing Application** is an ongoing project that is going to take the next year to finalize as testing and acceptance is being completed. No more work has been done on the **Computer Replacement Audit** until the Software Licensing Audit is finalized. Preliminary work is complete on the **Airport Audit** and the Job Start Letter is ready to be sent out. The **Bus Card Audit** is complete and the report is being reviewed. The issues with the Bus Card Audit include a lack of program goals and little advertising of the program. In the past, if you signed up for the Program you used it to come and go to work but you could not use it for any other purpose. It has evolved into being used for any transportation need. There is not much downside to the City because the Bus Card caps at \$34. The cost to control the use of the Card for only work is more than the cap on the Card. There are two options: limit the use by having employees sign a form agreeing to use it only to go back and forth to work or promote alternative modes of transportation by getting Council approval for an added employee benefit. Issues found included no active effort to market the program and no policies. The last audit we are working on is the **EMSD Audit** (use of the monies raised through the assessment in the downtown area). The preliminary survey has been completed, we are going through invoices, and will try to meet the May 12 due date. Committee Member Ecton asked what years are being reviewed. Ms. Barcala stated that the current year is being looked at and if that can be completed, will look at previous years.

Item 3 – Format of Status Reports: Ms. Barcala gave a background of the Status Report handed out at the last Audit Committee Meeting. The City Manager provided a Status Report of the PD Property Room. The Purchasing Department and Risk Management updates were not included in that Report. The Report handed out today includes updates from all three areas and is more detailed. Ms. Barcala asked if the Committee would like more detail or a report from management that they consider the recommendations closed. Chairman Lane indicated that it will be on an item by item basis and the Committee will make it clear when there is a timing issue and when more detail will be required or if any red flags are raised. Mr. Shearer stated that the City Manager has a tracking system in place and receives weekly detailed reports. He asked how frequently the Committee would like these reports. Chairman Lane stated this would be made clear as time goes on and issues present themselves. Presently, the Committee would like a status update on the PD Property Room and Medical Leave every two weeks. Chairman Lane stated that if there are any questions for management, they are to be funneled through Ms. Barcala.

Public Comments – None.

Committee Comments – None.

With no further business to discuss, the public meeting of the Audit Committee was adjourned at 4:35 p.m.

Respectfully submitted,

Gail Crawford